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City of San Jose
8

9 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
10 **COUNTY OF SANTA CLARA**

11 SAN JOSE POLICE OFFICERS
ASSOCIATION,

12 Plaintiff,

13 v.

14 CITY OF SAN JOSE, BOARD OF
15 ADMINISTRATION FOR POLICE AND
FIRE RETIREMENT PLAN OF CITY OF
16 SAN JOSE, and DOES 1-10 inclusive.,

17 Defendants.
18
19

20 AND RELATED CROSS-COMPLAINT
21 AND CONSOLIDATED ACTIONS
22
23
24

) Case No. 1-12-CV-225926

) [Consolidated with Case Nos. 112CV225928,
112CV226570, 112CV226574, 112CV227864]

) Assigned for all purposes to the Honorable
Patricia M. Lucas

) **DEFENDANT'S REQUEST FOR**
JUDICIAL NOTICE IN SUPPORT OF
MOTION FOR JUDGMENT ON THE
PLEADINGS BY THE CITY OF SAN
JOSE

) Date: January 29, 2013
Time: 9:00 a.m.
Dept.: 2

) Complaint Filed: June 6, 2012
Trial Date: None Set

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Case No. 1-12-CV-225926

DEFENDANT'S REQUEST FOR JUDICIAL NOTICE

1 Defendant City of San Jose hereby requests the Court to take judicial notice pursuant to
2 California Evidence Code Sections 450 *et seq.*, and in accordance with California Rules of Court
3 3.1113, subdivision (l) and 3.1306, subdivision (c), of the following material, true and correct
4 copies of which are attached hereto:

5 Exh. A: Full Text of Measure B: Article XV-A Retirement: Public Employee
6 Pension Plan Amendments – To Ensure Fair and Sustainable Retirement
7 Benefits While Preserving Essential City Services (referred as: “The
Sustainable Retirement Benefits and Compensation Act”);

8 Exh. B: Ordinance No. 29174 – An Ordinance of the City of San Jose Amending
9 Various Sections of Chapter 3.28 of Title 3 of the San Jose Municipal Code
10 to Clarify the City Charter Supersedes the Federated City Employees
11 Retirement Plan in Event of Conflict, Clarify the Definition of Tier 2
12 Member, Discontinue the Supplemental Retiree Benefit Reserve, Clarify
Actuarial Soundness is Determined Consistent With the California
Constitution, and Make Additional Requirements for Mandatory Medicare
Enrollment, To Be Effective January 4, 2013

13 Exhibit A is properly subject to judicial notice pursuant to California Evidence Code
14 Sections 451(a) (“provisions of any charter described in Sections 3, 4, or 5 of Article XI of the
15 California Constitution). Exhibits A and B are properly subject to judicial notice under California
16 Evidence Code sections 453 and 452(b) (providing that courts may take judicial notice of
17 “legislative enactments issued by or under the authority of the United States or any public entity in
18 the United States”). *See Trinity Park, L.P. v. City of Sunnyvale*, 193 Cal. App. 4th 1014, 1027
19 (“The Evidence Code also expressly provides for judicial notice of a public entity’s legislative
20 enactments and official acts. Thus, we may take notice of local ordinances and the official
21 resolutions, reports, and other official acts of a city.”).

22 For these reasons, the City respectfully requests that the Court take judicial notice of the
23 above-listed documents.

24 DATED: December 19, 2012

MEYERS, NAVE, RIBACK, SILVER & WILSON

25
26 By:

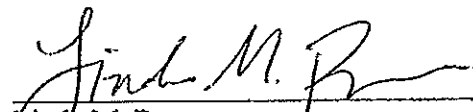

Linda M. Ross
Attorneys for Defendant
City of San Jose

EXHIBIT A

FULL TEXT OF MEASURE B

**ARTICLE XV-A
RETIREMENT**

**PUBLIC EMPLOYEE PENSION PLAN AMENDMENTS - TO
ENSURE FAIR AND SUSTAINABLE RETIREMENT BENEFITS
WHILE PRESERVING ESSENTIAL CITY SERVICES**

The Citizens of the City of San Jose do hereby enact the following amendments to the City Charter which may be referred to as:
"The Sustainable Retirement Benefits and Compensation Act."

Section 1501-A: FINDINGS

The following services are essential to the health, safety, quality of life and well-being of San Jose residents: police protection; fire protection; street maintenance; libraries; and community centers (hereafter "Essential City Services").

The City's ability to provide its citizens with Essential City Services has been and continues to be threatened by budget cuts caused mainly by the climbing costs of employee benefit programs, and exacerbated by the economic crisis. The employer cost of the City's retirement plans is expected to continue to increase in the near future. In addition, the City's costs for other post employment benefits - primarily health benefits - are increasing. To adequately fund these costs, the City would be required to make additional cuts to Essential City Services.

By any measure, current and projected reductions in service levels are unacceptable, and will endanger the health, safety and well-being of the residents of San Jose.

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Without the reasonable cost containment provided in this Act, the economic viability of the City, and hence, the City's employment benefit programs, will be placed at an imminent risk.

The City and its residents always intended that post employment benefits be fair, reasonable and subject to the City's ability to pay without jeopardizing City services. At the same time, the City is and must remain committed to preserving the health, safety and well-being of its residents.

By this Act, the voters find and declare that post employment benefits must be adjusted in a manner that protects the City's viability and public safety, at the same time allowing for the continuation of fair post-employment benefits for its workers.

The Charter currently provides that the City retains the authority to amend or otherwise change any of its retirement plans, subject to other provisions of the Charter.

This Act is intended to strengthen the finances of the City to ensure the City's sustained ability to fund a reasonable level of benefits as contemplated at the time of the voters' initial adoption of the City's retirement programs. It is further designed to ensure that future retirement benefit increases be approved by the voters.

Section 1502-A: INTENT

This Act is intended to ensure the City can provide reasonable and sustainable post employment benefits while at the same time delivering Essential City Services to the residents of San Jose.

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The City reaffirms its plenary authority as a charter city to control and manage all compensation provided to its employees as a municipal affair under the California Constitution.

The City reaffirms its inherent right to act responsibly to preserve the health, welfare and well-being of its residents.

This Act is not intended to deprive any current or former employees of benefits earned and accrued for prior service as of the time of the Act's effective date; rather, the Act is intended to preserve earned benefits as of the effective date of the Act.

This Act is not intended to reduce the pension amounts received by any retiree or to take away any cost of living increases paid to retirees as of the effective date of the Act.

The City expressly retains its authority existing as of January 1, 2012, to amend, change or terminate any retirement or other post employment benefit program provided by the City pursuant to Charter Sections 1500 and 1503.

Section 1503-A. Act Supersedes All Conflicting Provisions

The provisions of this Act shall prevail over all other conflicting or inconsistent wage, pension or post employment benefit provisions in the Charter, ordinances, resolutions or other enactments.

The City Council shall adopt ordinances as appropriate to implement and effectuate the provisions of this Act. The goal is that such ordinances shall become effective no later than September 30, 2012.

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Section 1504-A. Reservation of Voter Authority

The voters expressly reserve the right to consider any change in matters related to pension and other post employment benefits. Neither the City Council, nor any arbitrator appointed pursuant to Charter Section 1111, shall have authority to agree to or provide any increase in pension and/or retiree healthcare benefits without voter approval, except that the Council shall have the authority to adopt Tier 2 pension benefit plans within the limits set forth herein.

Section 1505-A. Reservation of Rights to City Council

Subject to the limitations set forth in this Act, the City Council retains its authority to take all actions necessary to effectuate the terms of this Act, to make any and all changes to retirement plans necessary to ensure the preservation of the tax status of the plans, and at any time, or from time to time, to amend or otherwise change any retirement plan or plans or establish new or different plan or plans for all or any officers or employees subject to the terms of this Act.

Section 1506-A. Current Employees

(a) "Current Employees" means employees of the City of San Jose as of the effective date of this Act and who are not covered under the Tier 2 Plan (Section 8).

(b) Unless they voluntarily opt in to the Voluntary Election Program ("VEP," described herein), Current Employees shall have their compensation adjusted through additional retirement contributions in increments of 4% of pensionable pay per year, up to a maximum of 16%, but no more than 50% of the costs to

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amortize any pension unfunded liabilities, except for any pension unfunded liabilities that may exist due to Tier 2 benefits in the future. These contributions shall be in addition to employees' normal pension contributions and contributions towards retiree healthcare benefits.

(c) The starting date for an employee's compensation adjustment under this Section shall be June 23, 2013, regardless of whether the VEP has been implemented. If the VEP has not been implemented for any reason, the compensation adjustments shall apply to all Current Employees.

(d) The compensation adjustment through additional employee contributions for Current Employees shall be calculated separately for employees in the Police and Fire Department Retirement Plan and employees in the Federated City Employees' Retirement System.

(e) The compensation adjustment shall be treated in the same manner as any other employee contributions. Accordingly, the voters intend these additional payments to be made on a pre-tax basis through payroll deductions pursuant to applicable Internal Revenue Code Sections. The additional contributions shall be subject to withdrawal, return and redeposit in the same manner as any other employee contributions.

Section 1507-A: One Time Voluntary Election Program ("VEP")

The City Council shall adopt a Voluntary Election Program ("VEP") for all Current Employees who are members of the existing retirement plans of the City as of the effective date of this Act. The implementation of the VEP is contingent upon receipt of

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IRS approval. The VEP shall permit Current Employees a one time limited period to enroll in an alternative retirement program which, as described herein, shall preserve an employee's earned benefit accrual; the change in benefit accrual will apply only to the employee's future City service. Employees who opt into the VEP will be required to sign an irrevocable election waiver (as well as their spouse or domestic partner, former spouse or former domestic partner, if legally required) acknowledging that the employee irrevocably relinquishes his or her existing level of retirement benefits and has voluntarily chosen reduced benefits, as specified below.

The VEP shall have the following features and limitations:

(a) The plan shall not deprive any Current Employee who chooses to enroll in the VEP of the accrual rate (e.g. 2.5%) earned and accrued for service prior to the VEP's effective date; thus, the benefit accrual rate earned and accrued by individual employees for that prior service shall be preserved for payment at the time of retirement.

(b) Pension benefits under the VEP shall be based on the following limitations:

- (i) The accrual rate shall be 2.0% of "final compensation", hereinafter defined, per year of service for future years of service only.
- (ii) The maximum benefit shall remain the same as the maximum benefit for Current Employees.
- (iii) The current age of eligibility for service retirement under the existing plan as approved by the City

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Council as of the effective date of the Act for all years of service shall increase by six months annually on July 1 of each year until the retirement age reaches the age of 57 for employees in the Police and Fire Department Retirement Plan and the age of 62 for employees in the Federated City Employees' Retirement System. Earlier retirement shall be permitted with reduced payments that do not exceed the actuarial value of full retirement. For service retirement, an employee may not retire any earlier than the age of 55 in the Federated City Employees' Retirement System and the age of 50 in the Police and Fire Department Retirement Plan.

- (iv) The eligibility to retire at thirty (30) years of service regardless of age shall increase by 6 months annually on July 1 of each year starting July 1, 2017.
- (v) Cost of living adjustments shall be limited to the increase in the consumer price index, (San Jose – San Francisco – Oakland U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 1.5% per fiscal year. The first COLA adjustment following the effective date of the Act will be prorated based on the number of remaining months in the year after retirement of the employee.
- (vi) "Final compensation" shall mean the average annual pensionable pay of the highest three consecutive years of service.
- (vii) An employee will be eligible for a full year of service credit upon reaching 2080 hours of regular time

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worked (including paid leave, but not including overtime).

(c) The cost sharing for the VEP for current service or current service benefits ("Normal Cost") shall not exceed the ratio of 3 for employees and 8 for the City, as presently set forth in the Charter. Employees who opt into the VEP will not be responsible for the payment of any pension unfunded liabilities of the system or plan.

(d) VEP Survivorship Benefits.

(i) Survivorship benefits for a death before retirement shall remain the same as the survivorship benefits for Current Employees in each plan.

(ii) Survivorship benefits for a spouse or domestic partner and/or child(ren) designated at the time of retirement for death after retirement shall be 50% of the pension benefit that the retiree was receiving. At the time of retirement, retirees can at their own cost elect additional survivorship benefits by taking an actuarially equivalent reduced benefit.

(e) VEP Disability Retirement Benefits.

(i) A service connected disability retirement benefit, as hereinafter defined, shall be as follows:

The employee or former employee shall receive an annual benefit based on 50% of the average annual pensionable pay of the highest three consecutive years of service.

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- (ii) A non-service connected disability retirement benefit shall be as follows:

The employee or former employee shall receive 2.0% times years of City Service (minimum 20% and maximum of 50%) based on the average annual pensionable pay of the highest three consecutive years of service. Employees shall not be eligible for a non-service connected disability retirement unless they have 5 years of service with the City.

- (iii) Cost of Living Adjustment ("COLA") provisions will be the same as for the service retirement benefit in the VEP.

Section 1508-A: Future Employees - Limitation on Retirement Benefits - Tier 2

To the extent not already enacted, the City shall adopt a retirement program for employees hired on or after the ordinance enacting Tier 2 is adopted. This retirement program - for new employees - shall be referred to as "Tier 2."

The Tier 2 program shall be limited as follows:

- (a) The program may be designed as a "hybrid plan" consisting of a combination of Social Security, a defined benefit plan and/or a defined contribution plan. If the City provides a defined benefit plan, the City's cost of such plan shall not exceed 50% of the total cost of the Tier 2 defined benefit plan (both normal cost and unfunded liabilities). The City may contribute to a defined contribution or other retirement plan only when and to the extent

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the total City contribution does not exceed 9%. If the City's share of a Tier 2 defined benefit plan is less than 9%, the City may, but shall not be required to, contribute the difference to a defined contribution plan.

(b) For any defined benefit plan, the age of eligibility for payment of accrued service retirement benefits shall be 65, except for sworn police officers and firefighters, whose service retirement age shall be 60. Earlier retirement may be permitted with reduced payments that do not exceed the actuarial value of full retirement. For service retirement, an employee may not retire any earlier than the age of 55 in the Federated City Employees' Retirement System and the age of 50 in the Police and Fire Department Retirement Plan.

(c) For any defined benefit plan, cost of living adjustments shall be limited to the increase in the consumer price index (San Jose - San Francisco - Oakland U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 1.5% per fiscal year. The first COLA adjustment will be prorated based on the number of months retired.

(d) For any defined benefit plan, "final compensation" shall mean the average annual earned pay of the highest three consecutive years of service. Final compensation shall be base pay only, excluding premium pays or other additional compensation.

(e) For any defined benefit plan, benefits shall accrue at a rate not to exceed 2% per year of service, not to exceed 65% of final compensation.

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(f) For any defined benefit plan, an employee will be eligible for a full year of service credit upon reaching 2080 hours of regular time worked (including paid leave, but not including overtime).

(g) Employees who leave or have left City service and are subsequently rehired or reinstated shall be placed into the second tier of benefits (Tier 2). Employees who have at least five (5) years of service credit in the Federated City Employees' Retirement System or at least ten (10) years of service credit in the Police and Fire Department Retirement Plan on the date of separation and who have not obtained a return of contributions will have their benefit accrual rate preserved for the years of service prior to their leaving City service.

(h) Any plan adopted by the City Council is subject to termination or amendment in the Council's discretion. No plan subject to this section shall create a vested right to any benefit.

Section 1509-A: Disability Retirements

(a) To receive any disability retirement benefit under any pension plan, City employees must be incapable of engaging in any gainful employment for the City, but not yet eligible to retire (in terms of age and years of service). The determination of qualification for a disability retirement shall be made regardless of whether there are other positions available at the time a determination is made.

(b) An employee is considered "disabled" for purposes of qualifying for a disability retirement, if all of the following is met:

(i) An employee cannot do work that they did before; and

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(ii) It is determined that

1) an employee in the Federated City Employees' Retirement System cannot perform any other jobs described in the City's classification plan because of his or her medical condition(s); or

2) an employee in the Police and Fire Department Retirement Plan cannot perform any other jobs described in the City's classification plan in the employee's department because of his or her medical condition(s); and

(iii) The employee's disability has lasted or is expected to last for at least one year or to result in death.

(c) Determinations of disability shall be made by an independent panel of medical experts, appointed by the City Council. The independent panel shall serve to make disability determinations for both plans. Employees and the City shall have a right of appeal to an administrative law judge.

(d) The City may provide matching funds to obtain long term disability insurance for employees who do not qualify for a disability retirement but incur long term reductions in compensation as the result of work related injuries.

(e) The City shall not pay workers' compensation benefits for disability on top of disability retirement benefits without an offset to the service connected disability retirement allowance to eliminate duplication of benefits for the same cause of disability, consistent with the current provisions in the Federated City Employees' Retirement System.

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**Section 1510-A: Emergency Measures to Contain Retiree
Cost of Living Adjustments**

If the City Council adopts a resolution declaring a fiscal and service level emergency, with a finding that it is necessary to suspend increases in cost of living payments to retirees the City may adopt the following emergency measures, applicable to retirees (current and future retirees employed as of the effective date of this Act):

(a) Cost of living adjustments ("COLAs") shall be temporarily suspended for all retirees in whole or in part for up to five years. The City Council shall restore COLAs prospectively (in whole or in part), if it determines that the fiscal emergency has eased sufficiently to permit the City to provide essential services protecting the health and well-being of City residents while paying the cost of such COLAs.

(b) In the event the City Council restores all or part of the COLA, it shall not exceed 3% for Current Retirees and Current Employees who did not opt into the VEP and 1.5% for Current Employees who opted into the VEP and 1.5% for employees in Tier 2.

Section 1511-A: Supplemental Payments to Retirees

The Supplemental Retiree Benefit Reserve ("SRBR") shall be discontinued, and the assets returned to the appropriate retirement trust fund. Any supplemental payments to retirees in addition to the benefits authorized herein shall not be funded from plan assets:

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Section 1512-A: Retiree Healthcare

(a) **Minimum Contributions.** Existing and new employees must contribute a minimum of 50% of the cost of retiree healthcare, including both normal cost and unfunded liabilities.

(b) **Reservation of Rights.** No retiree healthcare plan or benefit shall grant any vested right, as the City retains its power to amend, change or terminate any plan provision.

(c) **Low Cost Plan.** For purposes of retiree healthcare benefits, "low cost plan" shall be defined as the medical plan which has the lowest monthly premium available to any active employee in either the Police and Fire Department Retirement Plan or Federated City Employees' Retirement System.

Section 1513-A: Actuarial Soundness (for both pension and retiree healthcare plans)

(a) All plans adopted pursuant to the Act shall be subject to an actuarial analysis publicly disclosed before adoption by the City Council, and pursuant to an independent valuation using standards set by the Government Accounting Standards Board and the Actuarial Standards Board, as may be amended from time to time. All plans adopted pursuant to the Act shall: (i) be actuarially sound; (ii) minimize any risk to the City and its residents; and (iii) be prudent and reasonable in light of the economic climate. The employees covered under the plans must share in the investment, mortality, and other risks and expenses of the plans.

(b) All of the City's pension and retiree healthcare plans must be actuarially sound, with unfunded liabilities determined annually

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through an independent audit using standards set by the Government Accounting Standards Board and the Actuarial Standards Board. No benefit or expense may be paid from the plans without being actuarially funded and explicitly recognized in determining the annual City and employee contributions into the plans.

(c) In setting the actuarial assumptions for the plans, valuing the liabilities of the plans, and determining the contributions required to fund the plans, the objectives of the City's retirement boards shall be to:

- (i) achieve and maintain full funding of the plans using at least a median economic planning scenario. The likelihood of favorable plan experience should be greater than the likelihood of unfavorable plan experience; and
- (ii) ensure fair and equitable treatment for current and future plan members and taxpayers with respect to the costs of the plans, and minimize any intergenerational transfer of costs.

(d) When investing the assets of the plans, the objective of the City's retirement boards shall be to maximize the rate of return without undue risk of loss while having proper regard to:

- (i) the funding objectives and actuarial assumptions of the plans; and
- (ii) the need to minimize the volatility of the plans' surplus or deficit and, by extension, the impact on the volatility of contributions required to be made by the City or employees.

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Section 1514-A: Savings

In the event Section 6 (b) is determined to be illegal, invalid or unenforceable as to Current Employees (using the definition in Section 6(a)), then, to the maximum extent permitted by law, an equivalent amount of savings shall be obtained through pay reductions. Any pay reductions implemented pursuant to this section shall not exceed 4% of compensation each year, capped at a maximum of 16% of pay.

Section 1515-A: Severability

(a) This Act shall be interpreted so as to be consistent with all federal and state laws, rules and regulations. The provisions of this Act are severable. If any section, sub-section, sentence or clause ("portion") of this Act is held to be invalid or unconstitutional by a final judgment of a court, such decision shall not affect the validity of the remaining portions of this amendment. The voters hereby declare that this Act, and each portion, would have been adopted irrespective of whether any one or more portions of the Act are found invalid. If any portion of this Act is held invalid as applied to any person or circumstance, such invalidity shall not affect any application of this Act which can be given effect. In particular, if any portion of this Act is held invalid as to Current Retirees, this shall not affect the application to Current Employees. If any portion of this Act is held invalid as to Current Employees, this shall not affect the application to New Employees. This Act shall be broadly construed to achieve its stated purposes. It is the intent of the voters that the provisions of this Act be interpreted or implemented by the City, courts and others in a manner that facilitates the purposes set forth herein.

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(b) If any ordinance adopted pursuant to the Act is held to be invalid, unconstitutional or otherwise unenforceable by a final judgment, the matter shall be referred to the City Council for determination as to whether to amend the ordinance consistent with the judgment; or whether to determine the section severable and ineffective.

RES NO 76158

ADOPTED this 6th day of March, 2012, by the following vote:

AYES: CONSTANT, HERRERA, LICCARDO, NGUYEN,
OLIVERIO, PYLE, ROCHA; REED.

NOES: CAMPOS, CHU, KALRA.

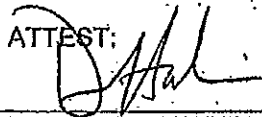
ABSENT: NONE.

DISQUALIFIED: NONE.



CHUCK REED
Mayor

ATTEST:



DENNIS D. HAWKINS, CMC
City Clerk

EXHIBIT B



City Clerk

CITY OF SAN JOSÉ, CALIFORNIA

Office of the City Clerk
200 East Santa Clara Street
San José, California 95113
Telephone (408) 535-1260
FAX (408) 292-6207

STATE OF CALIFORNIA)
COUNTY OF SANTA CLARA)
CITY OF SAN JOSÉ)

I, Dennis D. Hawkins, City Clerk & Ex-Officio Clerk of the Council of and for the City of San José, in said County of Santa Clara, and State of California, do hereby certify that **Ordinance No. 29174**, the original copy of which is attached hereto, was passed for publication of title on the **6th of November 2012**, was published in accordance with the provisions of the Charter of the City of San José, and was given final reading and adopted on the **4th day of December, 2012** by the following vote:

AYES: CONSTANT, HERRERA, LICCARDO, NGUYEN, OLIVERIO,
ROCHA; REED.

NOES: CAMPOS, CHU, KALRA, PYLE.

ABSENT: NONE.

ABSTAINED: NONE.

VACANT: NONE.

Said ordinance is effective as of **January 4, 2013**.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of the City of San José, this **12th day of December 2012**.

(SEAL)

DENNIS D. HAWKINS
CITY CLERK & EX-OFFICIO
CLERK OF THE CITY COUNCIL

ORDINANCE NO. 29174

AN ORDINANCE OF THE CITY OF SAN JOSE AMENDING VARIOUS SECTIONS OF CHAPTER 3.28 OF TITLE 3 OF THE SAN JOSE MUNICIPAL CODE TO CLARIFY THE CITY CHARTER SUPERSEDES THE FEDERATED CITY EMPLOYEES RETIREMENT PLAN IN EVENT OF CONFLICT, CLARIFY THE DEFINITION OF TIER 2 MEMBER, DISCONTINUE THE SUPPLEMENTAL RETIREE BENEFIT RESERVE, CLARIFY ACTUARIAL SOUNDNESS IS DETERMINED CONSISTENT WITH THE CALIFORNIA CONSTITUTION, AND MAKE ADDITIONAL REQUIREMENTS FOR MANDATORY MEDICARE ENROLLMENT, TO BE EFFECTIVE JANUARY 4, 2013

WHEREAS, the City of San José ("City") wishes to further implement the provisions of Article XV-A of the City's Charter and clarify that in the event of conflict between the provisions of Article XV-A of the City's Charter and the Federated City Employees Retirement Plan, the City's Charter controls; and

WHEREAS, the City wishes to clarify that certain employees who participate in a City sponsored defined contribution plan will be excluded from participation in the Federated City Employees Retirement Plan; and

WHEREAS, the City wishes to discontinue use of the Supplemental Retiree Benefit Reserve; and

WHEREAS, the City wishes to clarify that the actuarial soundness of the Federated City Employees Retirement Plan is determined in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"); and

WHEREAS, the City wishes to make additional requirements relating to mandatory enrollment of Federated City Employees Retirement Plan members into Medicare;

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF SAN JOSE:

SECTION 1. Section 3.28.010 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.010 Plan Established - Name - Scope

- A. There is hereby established a retirement plan for all persons, hereinafter in this chapter specified, who may become members thereof pursuant to the provisions of this chapter. This plan shall be known as the "1975 Federated City Employees Retirement Plan," and includes all provisions of this Chapter 3.28.
- B. Notwithstanding any provision of the code to the contrary, the elements of the retirement plan as set out in Chapters 3.16, 3.20, 3.24 and 3.28 are components of a single retirement system known as the Federated City Employees Retirement Plan.
- C. Contributions made by the City and the members of the plan to the retirement fund described in Part 3 of this Chapter shall be made for the purpose of distributing to such members or their beneficiaries the corpus and income of the fund in accordance with the terms of this plan.
- D. The Federated City Employees Retirement Plan is established as a qualified governmental defined benefit plan pursuant to Sections 401(a) and 414(d) of the Internal Revenue Code or such other provision of the Internal Revenue Code as applicable and applicable treasury regulations and other guidance of the internal revenue service. The board shall be authorized to adopt rules and regulations which are appropriate or necessary to maintain the qualified status of the plan.

- E. Effective September 30, 2012, the Federated City Employees Retirement Plan has been amended to provide for different retirement benefits for individuals hired or rehired by the City on and after that date. Members subject to these new benefit provisions are referred to in this chapter as Tier 2 members.
- F. Under the City Council' authority pursuant to Article XV, Section 1500 of the City Charter, the provisions of Article XV-A of the City Charter are hereby implemented into the San José Municipal Code. To the extent there is any conflict between Article XV-A of the City of San José's Charter and the provisions of the Federated City Employees' Retirement System, Article XV-A will supersede any conflicting provision in the Federated City Employees' Retirement System, except as provided in Section 3.28.350.B

SECTION 2. Section 3.28.030.28 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.030.28 Tier 2 Member

"Tier 2 member" means any person who is hired, rehired or reinstated by the City on or after September 30, 2012 except for any person who is eligible and elects to participate in a defined contribution plan established under the San José Municipal Code.

SECTION 3. Section 3.28.070 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.070 Termination of Plan

- A. Upon the termination of this plan or upon the complete discontinuance of contributions under the plan, the rights of each member, former member and beneficiary to benefits accrued to the date of such termination or discontinuance, to the extent then funded, shall be Nonforfeitable.
- B. Upon the termination of this plan, the board shall perform all of the following:
 - 1. Liquidate the assets of the retirement fund.
 - 2. Pay all of the accrued administrative expenses of the plan, including the expenses of liquidation.
 - 3. Determine the rights of each member, former member and beneficiary to benefits accrued to the date of termination, and ensure that all such benefits have been or are paid to the respective persons.
- C. Upon the termination of this plan and the satisfaction of all liabilities described in Subsection B. above, the board shall allocate any remaining assets of the retirement fund to the members of the plan on the basis of years of service and final compensation credited to the member at the time of termination of the plan.

SECTION 4. Section 3.28.340 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.340 Disposition of Earnings

- A. Definitions. For the purpose of this Section 3.28.340, the terms listed herein shall have the following meanings:

1. "Income account" means the account established in the general reserve pursuant to subsection B. below.
 2. "Interest crediting rate" means the interest rate determined by the board for crediting the employee contribution reserve.
- B. Retirement fund reserves. There shall be established in the retirement fund the following reserves:
1. The employee contribution reserve.
 - a. The board shall credit to the employee contribution reserve all contributions made by members of the retirement system and all interest payable pursuant to subsection C. below.
 - b. Moneys in the employee contribution reserve shall be available for the payment of benefits and for the return of contributions pursuant to Section 3.28.780.
 2. The general reserve.
 - a. The board shall establish an income account and shall credit the income account with all rents, interest, dividends, realized gains and losses, unrealized gains and losses, and all other income other than employer contributions, received during the fiscal year. The board shall pay from the income account all expenses and administrative costs as they are incurred.
 - b. The board shall credit to the general reserve all contributions made by the City, all interest payable pursuant to subsection C. below,

and that portion of the excess earnings determined pursuant to subsection D. below.

- c. Moneys in the general reserve shall be available for the payment of benefits and for the payment of the expenses and administrative costs of the retirement system.
- 3. Such other reserves as the board may determine from time to time.
- C. Credit to contributions and reserves. All interest credited pursuant to this subsection C. shall be deducted from the income account.
 - 1. Interest shall be credited to the employee contribution reserve on a semi-annual basis, or more frequently if authorized by the board, at the interest crediting rate.
 - 2. Interest shall be credited to the general reserve as follows:
 - a. Interest at the actuarially assumed annual rate of return adopted by the board pursuant to Section 3.28.200 or at the actual rate of return earned by the retirement fund during the applicable fiscal year, whichever is lower; plus
 - b. Interest calculated as the difference between (i) the interest that would have been credited to the employee contribution reserve had the employee contribution reserve been credited at the actuarially assumed annual rate of return adopted by the board pursuant to Section 3.28.200 or at the actual rate of return earned by the retirement fund during the applicable fiscal year, whichever is lower, and (ii) the interest actually credited to the employee contribution reserve pursuant to subsection C.1. above; provided,

however, that there shall be no offset to the general reserve in any case where this difference is a negative number.

D. Excess earnings.

1. Within ninety (90) days from and after receipt of audit reports for each fiscal year, the board shall determine the balance remaining in the income account after crediting of interest as provided in subsection C. above, and after payment of administrative costs and expenses of the retirement system for the applicable fiscal year.
2. If the balance remaining in the income account is greater than zero, the board shall by written resolution declare that balance to be the excess earnings for the applicable fiscal year, shall transfer the excess earnings to the general reserve. If the balance remaining in the income account is less than or equal to zero, the board by written resolution shall declare that there are no excess earnings and shall adjust the general reserve to reflect any negative balance in the income account so that the balance in the income account is zero as of the beginning of each fiscal year.

SECTION 5. Section 3.28.350 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.350 Investment of Funds - Conditions and Limitations

The board shall invest and reinvest the moneys in the retirement fund in accordance with the following standards:

- A. The assets of the retirement plan are trust funds and shall be held for the exclusive purposes of providing benefits to members of the plan and their

beneficiaries and defraying reasonable expenses of administering the plan. The assets of the retirement plan must not revert, and no contributions shall be permitted to be returned to the employers, except as permitted by Revenue Ruling 91-4.

- B. The board shall discharge its duties with respect to the plan solely in the interest of, and for the exclusive purposes of providing benefits to, members of the plan and their beneficiaries, maintaining the actuarial soundness of the plan in a manner consistent with Article XVI, Section 17 of the California Constitution (the "1992 California Pension Protection Act"), and defraying reasonable expenses of administering the plan. The board's duty to the members and their beneficiaries shall take precedence over any other duty.
- C. The board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- D. The board shall diversify the investments of the plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.
- E. The retirement plan may participate under Section 401(a)(24) of the Internal Revenue Code in a qualified group trust that meets the requirements of Section 401(a) of the Internal Revenue Code in accordance with Revenue Ruling 81-100, as amended by Revenue Ruling 2004-67.

SECTION 6. Section 3.28.1970 of Chapter 3.28 of Title 3 of the San José Municipal Code is amended to read as follows:

3.28.1970 Requirements for Participation in Medical Insurance Plan

- A. A member, as specified in Section 3.28.1950, above, is eligible to participate in a medical insurance plan sponsored by the City provided that the member satisfies the following requirements:
1. The member retires for service or disability pursuant to the provisions of this chapter; and
 2. The member applies for medical insurance coverage at the time of his or her retirement in accordance with the provisions of the medical insurance plan, and agrees to pay any applicable premiums.
- B. A survivor, as specified in Section 3.28.1960, above, is eligible to participate in a medical insurance plan sponsored by the City provided that the following conditions are satisfied:
1. The survivor is receiving a monthly survivorship allowance because of the death of a member who either died during his or her employment with the city or died after he or she terminated City employment and was retired pursuant to the provisions of this chapter; and
 2. At the time of the member's death, the member and the survivor were enrolled in one of the medical insurance plans sponsored by the City; and
 3. The survivor applies to continue medical insurance coverage at the time of the member's death, and agrees to pay any applicable premiums.
- C. A member may secure medical insurance coverage for a spouse only if the spouse and member were married at the time of said member's retirement for service or disability.

- D. A member may secure medical insurance coverage for a domestic partner only if the domestic partner and member had established a registered domestic partnership pursuant to Division 2.5 of the California Family Code or had formed a legal union other than a marriage that is recognized as a domestic partnership pursuant to California Family Code Section 299.2 at the time of said member's retirement for service or disability.
- E. A surviving spouse or surviving domestic partner shall be eligible for single coverage only, except as follows:
1. A surviving spouse or surviving domestic partner shall be eligible for family coverage if at least one surviving child as defined in Section 3.28.1460.D., or at least one child of the surviving spouse or surviving domestic partner who is unmarried, not a member of a registered domestic partnership and under the age of eighteen years, or an eligible surviving child for purposes of receiving a school allowance as defined in Section 3.28.1750, is surviving the death of a member; in such case, if such child was enrolled in a medical insurance plan sponsored by the City at the time of the member's death.
 2. A surviving spouse or surviving domestic partner shall be eligible for family coverage if the surviving spouse or surviving domestic partner is the court-appointed guardian of the person of a minor child or children and such minor child or children are eligible for coverage under the terms of the eligible medical plan. A surviving spouse or surviving domestic partner may continue family coverage after such child reaches the age of majority in any case where, if such child had been a surviving child of the member, such child would be an eligible surviving child for purposes of receiving a school allowance pursuant to Part 14 of this Chapter.

- F. As used in this section, "medical insurance plan sponsored by the city" means an eligible medical plan as described in Section 3.28.1990, below.
- G. Notwithstanding the provisions of Sections 3.28.1970.A.1., 2., and 3., and 3.28.1970.B.1., 2., and 3., members or their survivors who would otherwise qualify for participation in a medical insurance plan pursuant to the provisions of this part, but who, at the time of retirement or death, could not enroll because the benefits provided in this part were not available at the time of the member's retirement for service or disability or death of the member, may enroll in an eligible insurance plan as provided for in this part on or before October 31, 1984. If a member or survivor does not enroll on or before October 31, 1984, then said members or their survivors must otherwise comply with the coverage limitations provided in Section 3.28.1970 and with all other provisions of this part.
- H. A surviving spouse who would otherwise qualify for family coverage because the surviving spouse is the court-appointed guardian of the person of a minor child or children but who could not enroll because the family coverage provided in subsection E. above was not available to the surviving spouse at the time of the member's death, may enroll in family coverage in an eligible insurance plan as provided for in this part until December 30, 2002, only. Said surviving spouse must otherwise comply with the coverage limitations set forth in this Section 3.28.1970 and with all other provisions of this part.
- I. Effective September 30, 2012 for Tier 2 members and effective January 4, 2013 for non-Tier 2 members, a member and/or dependent and/or survivor who is eligible for retiree healthcare benefits in the Federated City Employees' Retirement System and who is eligible for Medicare coverage shall be required to enroll in Medicare Part A and B within 6-months of reaching the age of 65. However, if a member is already retired and age 65 or older on the date this Section of the Ordinance becomes effective for such member and is eligible for Medicare coverage then the member shall be required to enroll in Medicare Part

A and B by July 1, 2013. Additionally, the plan member and/or dependent and/or survivor who is eligible for Medicare coverage shall be required to enroll in a Medicare Plan provided by the Federated City Employees' Retirement System and assign Medicare Part A and B benefits to the Medicare Plan if required by the healthcare provider.

If a plan member was hired before March 1986 and is not eligible for Medicare Part A at no cost or a plan member for any reason is not eligible for Medicare, the plan member shall be required to provide such verification from the U.S. Social Security Administration to the Department of Retirement Services within 6 months from the date the plan member becomes age 65, or if the member is already retired and age 65 or older on January 4, 2013 then by July 1, 2013. Unless such verification is provided, Plan members shall be required to enroll in a Medicare Plan provided by the Federated City Employees' Retirement System within 6 months from the date the plan member is age 65 or if the member is retired and age 65.

If a plan member fails to meet the requirements set forth above within 6 months from the date the member becomes age 65, or if the member is retired and age 65 or older on the effective date this Section of the Ordinance becomes applicable to such member, by July 1, 2013, the Plan shall cease to provide retiree healthcare benefits until the Plan member completes such requirements. This means that the member and any qualifying dependents shall not receive retiree healthcare benefits. The Plan member and qualifying dependents shall be re-enrolled in retiree healthcare benefits beginning the first day of the following month after such requirements have been completed.

If the Plan member dies during the period which the plan member failed to complete the requirements set forth above, the eligible spouse or domestic partner and any qualifying child(ren) shall be re-enrolled in a health insurance plan. The spouse or domestic partner shall be enrolled upon attaining age 65, or

if the spouse or domestic partner is age 65 or older on the effective date, by July 1, 2013. The requirements described above regarding enrollment in Medicare Parts A and B and enrollment in a Medicare Plan provided for city retirees and dependents, and assignment of Medicare Parts A and B benefits to the Medicare Plan must be fulfilled; unless verification is provided that the spouse or domestic partner is not eligible for Medicare coverage as described in this Section. If such requirements are not met, retiree healthcare coverage will cease until such requirements are completed, in the same manner set forth above with respect to members.

SECTION 7. The provisions of this Ordinance shall be effective on January 4, 2013.

PASSED FOR PUBLICATION of title this 6th day of November, 2012, by the following vote:

AYES: CONSTANT, HERRERA, LICCARDO, NGUYEN, OLIVERIO,
ROCHA; REED.

NOES: CAMPOS, CHU, KALRA, PYLE.

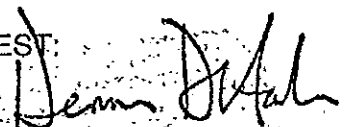
ABSENT: NONE.

DISQUALIFIED: NONE.



CHUCK REED
Mayor

ATTEST:


DENNIS D. HAWKINS, CMC
City Clerk

The foregoing instrument is
a correct copy of the original
on file in this office.


Attest:

DENNIS D. HAWKINS

City Clerk

City Clerk of the City of San Jose

County of Santa Clara, State of California

By  Deputy